GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:2899
ANSWERED ON:02.12.2016
Trade Credit Insurance
Manjhi Shri Hari

Will the Minister of FINANCE be pleased to state:

(a) whether the Insurance Regulatory and Development Authority of India (IRDAI) proposes to revise the norms for trade credit insurance and if so, the details thereof; and

(b) the extent to which the revision in trade credit is likely to boost various trade sectors including Micro, Small and Medium Enterprises (MSMEs) in the country?

Answer

Minister of State in the Ministry of Finance

(a) & (b): Insurance Regulatory and Development Authority of India (IRDAI) has revised the guidelines on trade credit insurance vide circular dated 10.03.2016. The major changes in the trade credit insurance guidelines which help in the growth of trade sector are as follows:

(i) The erstwhile norms had disallowed issuance of trade credit policy if the proposer had less than ten buyers. Since the scale of operations of Micro, Small and Medium Enterprise (MSME) sector is usually low, the number of buyers is generally limited. Therefore, in order to extend the credit insurance coverage to the MSME sector, IRDAI had relaxed the norm of minimum 10 buyers. The insurers can now issue credit insurance policy even if the number of buyers is very small.

(ii) The revised guidelines provide for assignment of proceeds of a claim under a trade credit policy to a bank/ Non Banking Financial Company (NBFC) registered with RBI. It would now be easier for companies to obtain finance against the receivables which are insured against non-payment.

(iii) Additionally, the maximum limit of indemnity that an insurer can offer in a trade credit insurance policy has been increased from 80% to 85% of the trade receivables from each buyer. The insurer is now able to grant higher indemnity to the policyholder and hence the potential loss borne by the insured would be lower in the event of non-payment by a buyer.